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SUBJECT: EARLY ELECTIONS NOT EXPECTED TO IMPACT ECONOMY

REF: A. A. BRATISLAVA 101

[1](#)B. B. BRATISLAVA 100

[1](#)C. C. BRATISLAVA 99

[1](#)1. (U) SUMMARY: Parliament's unanimous approval to hold early elections June 17 (vice September) is not expected to have much impact on the economy. Outside of a slight depreciation of the Slovak Koruna following the Christian Democratic Movement's (KDH) defection from the ruling coalition, most experts have focused on how a shortened timeframe will impact the Government's remaining economic agenda. The government announced its plans to complete the privatizations that are already underway (airports, power and possibly rail cargo), while others (regional electricity distribution and heating plants) will be left for the next government. A June election also has the benefit of providing a new government more time to settle into office before having to prepare the 2007 state budget. END SUMMARY.

[1](#)2. (U) The Slovak Koruna depreciated by 1 percent (from 37.35 SKK/EUR to 37.75 SKK/EUR) following KDH's announcement February 6 that the party would leave the government, the first significant decline since Slovakia's November announcement to enter the European Exchange Rate Mechanism II (ERM II). The subsequent decision by Prime Minister Dzurinda to hold early elections, and unanimous Parliamentary approval for June 17 elections, have helped stabilize the currency, which stands at 37.54 SKK/EUR as of February 13.

-- NO NEW PRIVATIZATIONS, BUT NO REASON TO STOP THOSE ALREADY WELL UNDERWAY --

[1](#)3. (U) The government has already achieved its main economic goals for this Parliamentary session by entering ERM II in November and passing the FY 2006 budget in December. In January the Prime Minister announced that his government would focus on completing privatizations until the end of March, at which point it would leave any remaining plans to sell off government assets to the next government. On February 1 the cabinet approved the most visible and controversial deal, privatization of Bratislava and Kosice airports to a consortium including Vienna's Schwechat airport and Slovak private equity group Penta. Likewise, the sale of 41 percent of the shares of Zapadoslovenska energetika (ZSE), a regional power distributor in western Slovakia, to EON, a German company that already owns 49 percent of the company, will likely continue.

[1](#)4. (U) In the last remaining weeks of its session, Parliament must take action for the government to finalize the privatization of 66 percent of Slovenske Elektrarne to

Italian power utility Enel. One of Enel's conditions for the completion of the approximately USD 900 million deal is that Parliament pass a law authorizing state funds for the decommissioning of nuclear power plants. Despite their departure from the ruling coalition earlier in the week, KDH's leadership has indicated that they will support the legislation, which should give the ruling coalition enough votes to approve the measure.

15. (U) Prime Minister Dzurinda is being much more cautious in the pending sale of Zeleznicna Spolocnost Cargo Slovakia (ZSSK Cargo), a national railway freight handler. The government has already received the final bids for the tender, and last Tuesday the Privatization Commission recommended to the government that the consortium of Rail Cargo Austria and Slovak finance group J&T be selected as winners. (Note: U.S.-based Rail World is also participating in the tender with Slovak finance group Penta.) Dzurinda announced last week, and again over the weekend, that he would only continue with the cargo deal if he had agreement from the opposition parties. He has suggested, however, that halting the deal at this time would lead to unspecified damages to the government in the form of lawsuits and/or a lower sale price in the future. Privatization of the two remaining regional power distributors, Stredoslovenska energetika (SSE) and Vychodoslovenska energetika (VSE), to their existing strategic investors has been postponed until after the election. The government has also decided to put off any action on the privatizations of six municipal heating companies.

-- COMMENT --

16. (SBU) Early elections are unlikely to have any significant short-term impact on the Slovak economy or the government's remaining economic agenda, which was already minimalist in

BRATISLAVA 00000121 002 OF 002

nature. In the long run they may prove beneficial by providing the next government more time to make appointments to key economic ministries and get their house in order before submitting a budget to the Parliament in October for fiscal year 2007. The budget process will be closely watched by Brussels now that Slovakia is in ERM II.
VALLEE